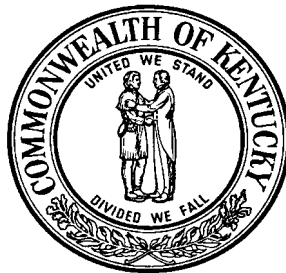


**REPORT OF THE AUDIT OF THE
MCCRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
May 1, 2007 Through April 30, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MCCRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
May 1, 2007 Through April 30, 2008

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the McCracken County Sheriff for the period May 1, 2007 through April 30, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of 28,128,305 for the districts for 2007 taxes, retaining commissions of \$918,605 to operate the Sheriff's office. The Sheriff distributed taxes of \$27,008,624 to the districts for 2007 taxes. Taxes of \$160,579 are due to the districts from the Sheriff.

Report Comment:

- Internal Controls Over Financial Reporting Should Be Strengthened

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Van Newberry, McCracken County Judge/Executive

Honorable Jon Hayden, McCracken County Sheriff

Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the McCracken County Sheriff's Settlement - 2007 Taxes for the period May 1, 2007 through April 30, 2008. This tax settlement is the responsibility of the McCracken County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the McCracken County Sheriff's taxes charged, credited, and paid for the period May 1, 2007 through April 30, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Van Newberry, McCracken County Judge/Executive

Honorable Jon Hayden, McCracken County Sheriff

Members of the McCracken County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Internal Controls Over Financial Reporting Should Be Strengthened

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

November 6, 2009

MCCRACKEN COUNTY
JON HAYDEN, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period May 1, 2007 Through April 30 2008

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 2,849,509	\$ 3,880,812	\$ 10,879,670	\$ 3,569,082
Tangible Personal Property	249,123	1,172,786	2,450,195	2,522,126
Increases Through Exonerations	58,196	63,483	9,158	242,894
Franchise Taxes	184,388	277,079	624,381	
Limestone, Sand and Mineral Reserves	70	121	342	87
Additional Billings	930	1,202	3,886	1,164
Penalties	16,862	24,075	64,497	23,179
Adjusted to Sheriff's Receipt	18	66	1	
Gross Chargeable to Sheriff	3,359,096	5,419,624	14,032,130	6,358,532
<u>Credits</u>				
Exonerations	17,596	24,424	60,887	26,061
Discounts	49,905	82,902	216,938	100,769
Delinquents:				
Real Estate	58,352	76,042	164,902	73,087
Tangible Personal Property	4,302	9,066	16,205	19,906
Unpaid Additional Bills	88	440	2,044	110
Franchise Taxes				
Uncollected	80	146	369	
Delinquent	5,720	7,534	23,202	
Total Credits	136,043	200,554	484,547	219,933
Taxes Collected	3,223,053	5,219,070	13,547,583	6,138,599
Less: Commissions *	137,267	181,470	338,690	261,178
Taxes Due	3,085,786	5,037,600	13,208,893	5,877,421
Taxes Paid	3,054,695	4,985,849	13,099,823	5,868,257
Refunds (Current and Prior Year)	5,859	9,333	16,299	9,006
Due Districts as of Completion of Audit	\$ 25,232	\$ 42,418	\$ 92,771	\$ 158

**

*and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

MCCRACKEN COUNTY
 JON HAYDEN, SHERIFF
 SHERIFF'S SETTLEMENT - 2007 TAXES
 For The Period May 1, 2007 Through April 30 2008
 (Continued)

* Commissions:

10% on \$10,000
 4.25% on \$12,990,193
 4% on \$367,560
 2.5% on \$13,547,583
 1% on \$1,212,969

** Special Taxing Districts:

Library District	\$	15,250
Health District		5,761
Extension District		5,234
Mental Health District		2,162
Paducah Junior College		4,059
Reidland Fire District		2,527
Hendron Fire District		1,308
West McCracken Fire District		2,499
Concord Fire District		2,054
Lone Oak Fire District		1,481
Melber Fire District		83
		<hr/>
Due Districts	\$	<u><u>42,418</u></u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Property Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 12, 2007 through April 30, 2008.

Note 4. Interest Income

The McCracken County Sheriff earned \$63,921 as interest income on 2007 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of November 6, 2009, the Sheriff was due a refund of \$748 in interest from the school district and owed \$1,646 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The McCracken County Sheriff collected \$101,378 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of November 6, 2009, all 10% add-on fees had been paid to the Sheriff's fee account.

Note 6. Advertising Costs And Fees

The McCracken County Sheriff collected \$6,555 of advertising costs and \$6,585 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs and advertising fees to the county treasurer.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2007 taxes, the Sheriff had \$27 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Van Newberry, McCracken County Judge/Executive
Honorable Jon Hayden, McCracken County Sheriff
Members of the McCracken County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the McCracken County Sheriff's Settlement - 2007 Taxes for the period May 1, 2007 through April 30, 2008, and have issued our report thereon dated November 6, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCracken County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the McCracken County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the McCracken County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- Internal Controls Over Financial Reporting Should Be Strengthened



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCracken County Sheriff's Settlement - 2007 Taxes for the period May 1, 2007 through April 30, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The McCracken County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the McCracken County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 6, 2009

COMMENT AND RECOMMENDATION

MCCRACKEN COUNTY
JON HAYDEN, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 1, 2007 Through April 30, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

Internal Controls Over Financial Reporting Should Be Strengthened

Due to weaknesses in the Sheriff's internal controls over financial reporting, significant errors were noted in the Sheriff's settlement of 2007 tax collections. A limited number of office staff resulted in inadequate segregation of duties over some areas of financial reporting. In order to offset the risks of misstatements in financial reporting as well as fraud, the Sheriff must have controls in place that can effectively limit these risks with the office staff available.

During our audit, we noted the Sheriff's bookkeeper has full responsibility for receiving and recording franchise taxes as well as collection on taxpayer's returned checks. When only one individual is responsible for both receiving moneys to be deposited as well as recording these receipts for inclusion in the financial statements, mistakes made by that individual may go undetected and uncorrected, resulting in potentially material misstatements. We recommend a second individual prepare deposits for franchise taxes and returned check collections and compare these to amounts reported during the recording process. If this is not possible, another individual should, at a minimum, review the deposit and corresponding documentation prior to bank deposit. This individual should also initial the supporting documentation to document the review.

We also determined that controls over tax disbursements did not detect a significant error related to the distribution of taxes to the taxing districts. All disbursement checks require two signatures to be processed, with the first signature being that of the individual responsible for the check preparation. A second individual is to then agree the check to its related supporting documentation and then provide a second signature on the check. However, we noted one check written for an incorrect amount that did not agree to supporting documentation, even though it had been signed by two individuals. We recommend the individual who provides a second signature on disbursement checks, whether it is the Sheriff or his designee, agree each check to supporting documentation and resolve any differences before providing a second signature and finalizing the disbursement. This individual should also initial the supporting documentation to document this review.

Undetected errors in the Sheriff's settlement and distribution of taxes further indicates weaknesses in the Sheriff's reconciliation procedures, which are crucial in detecting past errors and correcting them timely. Such procedures include reconciling cash receipts and disbursements per bank statements to amounts recorded in the Sheriff's financial records, and reconciling taxes charged to the Sheriff to amounts collected and outstanding. In order to insure proper functioning of the reconciliation process, we recommend that one individual reconcile amounts reported by the month-end bank statements to amounts reported daily, weekly, and/or monthly by the bookkeeper and the Sheriff's computer information system. Any variance should be promptly investigated and explained. We further recommend that periodic reconciliations be made between amounts charged to the Sheriff for collection to amounts previously collected and those outstanding and due. These reconciliations would allow for more efficient preparation of the Sheriff's tax settlement and would alert the Sheriff to potential errors in the computer information system.

MCCRACKEN COUNTY
JON HAYDEN, SHERIFF
COMMENT AND RECOMMENDATION
For The Period May 1, 2007 Through April 30, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS: (Continued)

Internal Controls Over Financial Reporting Should Be Strengthened (Continued)

Sheriff's Response: As stated in the report, the limited amount of staff we have has resulted in inadequate segregation of duties over the tax account. In an effort to implement additional safeguard, the county treasurer will be conducting the monthly reconciliation on the tax account.

In respect to the disbursements made to the taxing districts, the suggested controls to prevent error will be followed.

